

February 2006

Private Equity Partners III

We are pleased to announce the launch of the next private equity fund of funds in our series – **Private Equity Partners III**. This fund will employ a similar investment strategy to our two previous funds, which is to commit to a highly-selective subset of top-tier venture capital and leveraged buyout fund managers. A number of these allocations have already been secured. If you would like to learn more about PEP III, please contact Gretchen Postula.

Private Equity Statistics

This special edition of our market commentary provides you with a semi-annual update on a set of statistics outlining the conditions for fundraising, valuations and exits in the venture capital and leveraged buyout sectors. Our quick analysis highlights these points:

- Fundraising in 2005 generated larger average fund sizes than in 2004, specifically a 44% increase for VC funds and a 40% increase for LBO funds. LBO funds set a record for capital raised of \$88 billion, exceeding the previous record of \$76 billion in 2000.
- Overall, VC and LBO valuations are trending higher and are roughly at 1998 levels. This indicates that competition is increasing. The increase in capital raised and valuations underscores the importance of carefully selecting seasoned fund managers who have proprietary deal flow.
- VC-backed IPOs slowed in 2005 compared to 2004 due primarily to an unusually large backlog of biotech deals that came to market in 2004. There were only a few tech IPOs in 2004 and 2005. Currently, there is a strong biotech backlog but we have not seen any appreciable improvement for tech IPO deal flow so far in 2006.
- While 2005 volume was similar to “normal” levels prior to the bubble, the number of VC-backed IPOs was substantially less than those pre-bubble years—further proof that Sarbanes-Oxley continues to force VCs to hold companies longer so they are more mature when they go public. Meanwhile, LBO-backed IPOs enjoyed another record breaking year for this very same reason as the capital markets favored IPOs from their more mature portfolio companies.
- VC-backed M&A volume for 2005 was similar to 2004 but the number of deals was down. We attribute this to a large number of small merger-of-equal deals that were done in 2004 as VCs finally were able to get some liquidity for their modest winners, while saving many of their higher growth prospects for exits in 2005 and beyond. Overall, the M&A market was quite strong in 2005 and our M&A experts at Piper Jaffray expect continued robust activity in 2006, including for VC-backed companies.

We hope you find this information valuable as you evaluate your private equity investments. We would welcome your questions and comments.

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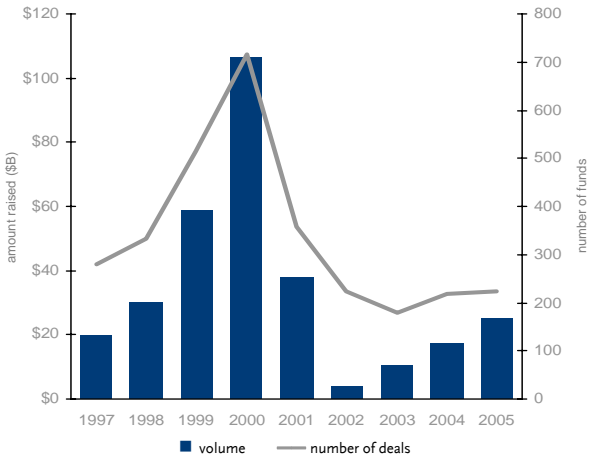
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Find us on the web at

piperjaffray.com/fundoffunds

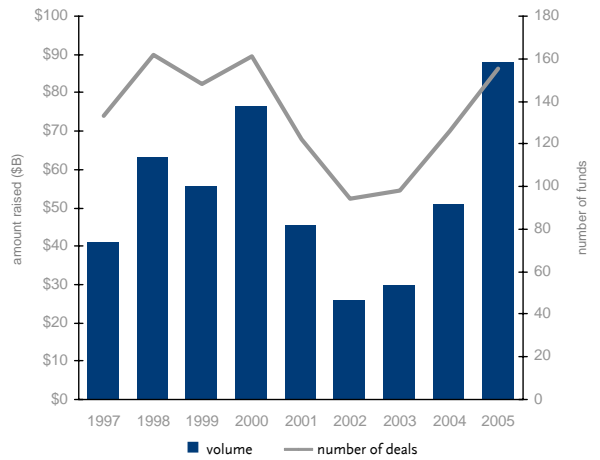
Fundraising

Venture Capital (1997 – 2005)



Source: Thompson Venture Economics/National Venture Capital Association. Data as of 12/31/2005, run as of 2/22/2006.

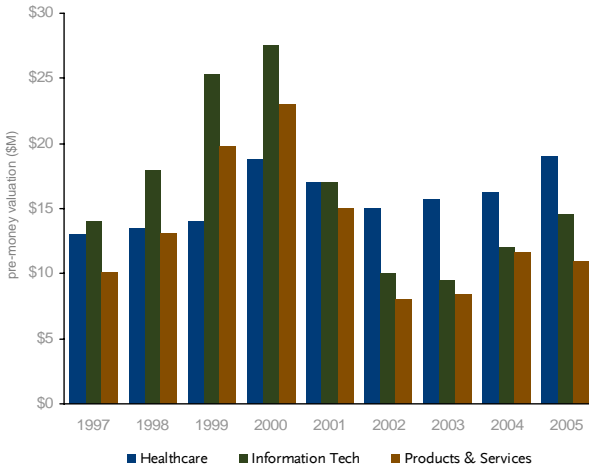
Leveraged Buyout* (1997 – 2005)



Source: Thompson Venture Economics/National Venture Capital Association. Data as of 12/31/2005, run as of 2/22/2006.
 * This category includes LBO, Mezzanine, Turnaround and Recapitalization-focused funds.

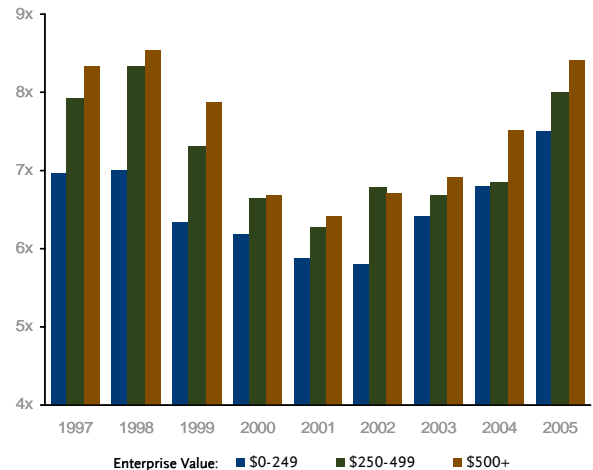
Valuations

Venture Capital Median Pre-Money Valuations (1997 – 2005)



Source: Venture Source and Securities Data Corporation.

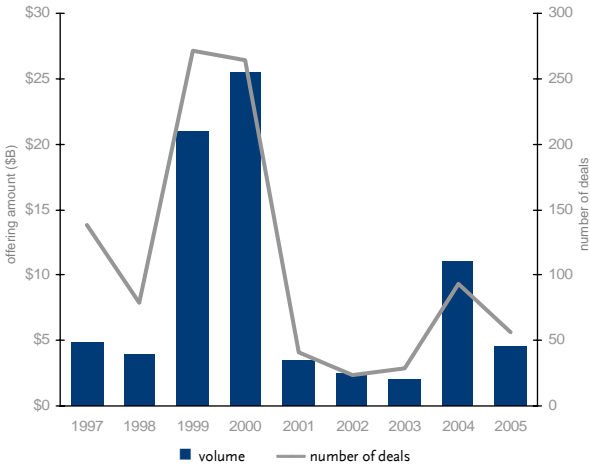
Avg. LBO Purchase Price (Multiple of EBITDA) (1997 – 2005)



Source: Standard & Poor's Q4 Leveraged Buyout Review.

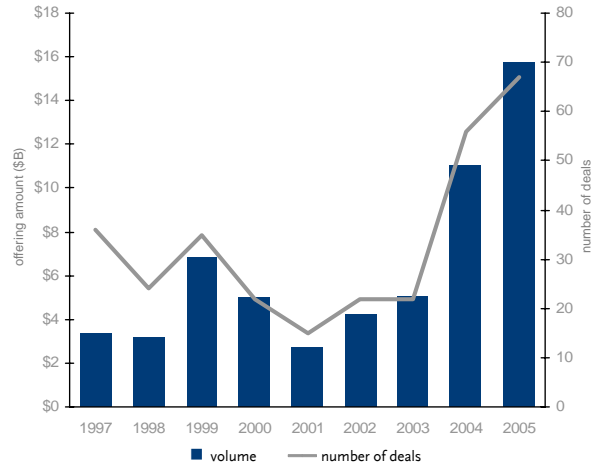
Exits

Venture-backed IPO Market (1997 – 2005)



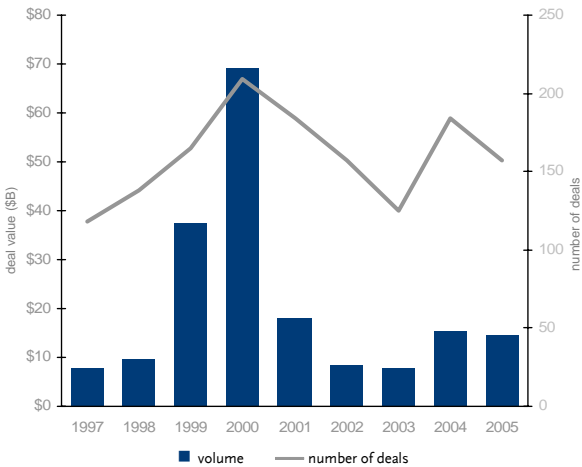
Source: Thompson Venture Economics/National Venture Capital Association. Data as of 12/31/2005, run as of 2/22/2006. Data only includes disclosed deals.

Buyout-backed IPO Market (1997 – 2005)



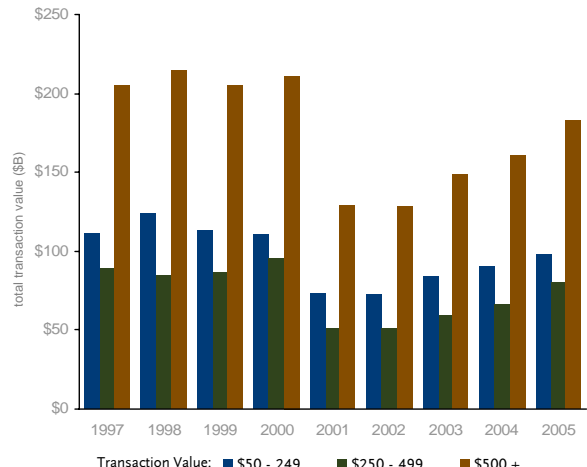
Source: Thompson Venture Economics/National Venture Capital Association. Data as of 12/31/2005, run as of 2/22/2006. Data only includes disclosed deals.

Venture-backed M&A Market (1997 – 2005)



Source: Securities Data Corporation. Data as of 12/31/2005, run as of 2/22/2006. Data only includes disclosed deals.

M&A Activity by Transaction Value (1997 – 2005)



Transaction Value: ■ \$50 - 249 ■ \$250 - 499 ■ \$500 +
 Source: Securities Data Corporation. Data as of 12/31/2005, run as of 2/22/2006. Data only includes disclosed deals.